

# The Balance of Payments in 1952

**T**HE improvement in the financial position of foreign countries, which was indicated by the international transactions of the United States during the second and third quarters of 1952, continued in the last quarter of the year. During these nine months foreign countries were able, through their transactions with the United States, to raise their holdings of gold and dollar assets by nearly \$1.6 billion. These gains helped to bring total foreign gold and liquid dollar resources (excluding those of the International Bank and the International Monetary Fund) to over \$20 billion by the end of 1952, almost the same amount as at the end of 1945, the previous peak.

## Foreign reserves continue to increase

Although foreign countries continued to add to their gold and dollar holdings in the fourth quarter, a rise in the United States export balance on goods and services from the third to the fourth quarter was largely responsible for a decline in gold and dollar transfers from \$765 million to \$395 million. The export rise must be attributed, however, mainly to seasonal and temporary factors, such as the upswing in agricultural exports and, to a lesser extent, the rise in shipments of steel and steel products—the latter having been curtailed during the previous quarter because of the steel strike. In addition, income on investments advanced to the usual seasonal peak in the last quarter of the year.

Table 1 indicates in simplified form the basic features and trends of the balance of payments since the middle of 1950.

Although substantial progress toward a better balance in international transactions has been achieved since the first quarter of 1952, net foreign purchases of goods and services here in the fourth quarter of 1952 were still larger—by an annual rate of \$500 million—than the amount of funds currently earned by foreign countries from United States imports or supplied by private United States investments and remittances.

## United States exports decline

Several factors contributed to a decline in United States exports, which was the major reason that foreign countries were able to reduce the imbalance in their transactions with the United States during 1952.

First, business activity in the United States expanded faster than in Western Europe in contrast to all other postwar years, when the rise from each year to the next was greater abroad than in the United States. Europe's faster advances in the earlier years represented, of course, recovery from the unduly low levels of production which prevailed immediately after the war.

The index of industrial production in the United States during the last quarter of the year averaged about 5 percent higher than during the first quarter. The rise in industrial production in Western Europe was only approximately half as much. This relative difference in expansion of industrial

activity between this country and Western Europe could ordinarily be expected to raise the demand for imports here—and at the same time increase European incentives to export to this country. Several factors, however, accentuated the normally to be expected effects on international transactions of these differences in the movement of production.

Table 1.—Summary of the United States Balance of Payments, July 1950–December 1952

(Billions of dollars, quarterly totals or rates)

	Line in table 2	July 1950–June 1951	July–December 1951	1952			
				I	II	III	IV
Foreign countries earned from the sale of goods and services to the United States.....	16	3,685	2,683	3,887	3,947	3,911	4,003
Foreign countries obtained total goods and services from the United States valued at.....	8	4,324	5,294	5,347	5,323	4,004	5,428
Less those furnished under military aid.....	20	204	274	440	888	810	940
Other goods and services purchased in the United States.....		4,834	4,910	4,907	4,733	3,988	4,478
Thus, foreign net expenditures on goods and services (excluding those furnished under military aid) were.....		345	1,307	1,849	866	77	286
To finance these net purchases, foreign countries had at their disposal the following amounts of dollars received from United States sources:							
Investments in United States controlled enterprises abroad.....	24	178	134	180	272	78	84
Other private loans and remittances.....	18, 25, 26	348	227	161	241	21	127
Government economic grants, other transfers, and loans (net).....	19, 21, 27, 28	816	746	687	990	768	803
Total foreign dollar receipts from investments, gifts, and loans.....		1,337	1,107	898	1,473	864	874
Thus, known foreign dollar receipts exceeded (+) or fell short (–) of known foreign dollar expenditures by.....		+992	–280	–152	+607	+787	+373
However, unaccounted-for transactions required (–) or supplied (+) additional dollar exchange of.....	35	–105	–100	–230	–263	–22	+217
So that foreign gold and dollar assets increased (+) or declined (–) by these amounts.....	24	+887	–380	–382	+344	+765	+395

The textile industry, which underwent the relatively greatest decline in output abroad, depends to a large extent upon raw materials from the United States, so that the impact from the change in its activity was directly transferred to United States exports.

Also, the decline in demand for coal from the United States may in part be ascribed to the failure of industrial production in Western Europe to maintain the previous rate of expansion while coal production there continued to

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Table 2.—Balance of Payments of the United

(Millions of dollars)

Line No.	Item	All areas					Western Europe <sup>1</sup>					Dependence <sup>2</sup>				
		1951	1952				1951	1952				1951	1952			
			I*	II	III*	IV*		I*	II	III*	IV*		I	II	III*	IV*
1	Exports of goods and services:															
2	Merchandise, adjusted:	15,485	4,177	4,089	3,430	4,108	15,859	5,327	1,438	1,388	1,083	1,069	5,574	504	150	149
3	Transportation:	1,487	302	275	280	317	1,373	708	204	172	131	142	61	14	13	11
4	Travel:	430	102	141	100	100	412	37	6	13	19	0	7	2	3	2
5	Miscellaneous services:															
6	Private:	623	180	155	154	164	623	273	89	68	58	60	200	5	2	3
7	Government:	211	94	100	104	116	423	133	72	40	24	52	200	(*)	(*)	(*)
8	Income on investments:															
9	Private:	1,800	340	448	420	466	1,711	160	30	38	29	30	149	102	23	30
10	Government:	192	20	13	41	116	200	163	23	5	29	160	163	(*)	(*)	(*)
11	Total:	28,218	5,347	5,322	4,404	4,429	28,791	6,639	1,551	1,725	1,396	2,081	7,063	623	191	197
12	Imports of goods and services:															
13	Merchandise, adjusted:	11,068	2,867	2,844	2,689	2,634	11,510	2,176	559	540	623	641	2,287	1,856	302	283
14	Transportation:	935	245	210	210	254	1,051	419	120	117	150	123	553	19	8	7
15	Travel:	722	132	208	243	145	833	189	22	70	103	42	245	45	15	13
16	Miscellaneous services:															
17	Private:	240	62	62	64	61	303	200	60	51	54	53	205	(*)	(*)	(*)
18	Government:	1,084	377	373	438	473	1,661	302	137	136	157	171	600	35	20	20
19	Income on investments:															
20	Private:	361	77	97	79	104	337	203	59	60	58	59	390	2	1	1
21	Government:	47	12	12	20	20	64	14	4	5	8	8	24	(*)	(*)	(*)
22	Total:	16,951	3,957	3,957	3,611	3,633	16,738	3,671	944	1,028	1,052	1,110	4,134	1,187	354	333
23	Balance on goods and services:	5,164	1,480	1,358	693	1,345	4,973	2,968	607	697	344	971	2,929	-475	-165	-134
24	Unilateral transfers (net, in foreign currencies (-)):															
25	Private:	-112	-60	-84	-103	-122	-416	-102	-44	-63	-47	-63	-100	-15	-8	-4
26	Government:															
27	Economic aid:	-3,685	-387	-815	-538	-341	-1,904	-2,192	-266	-401	-423	-372	-1,441	(*)	(*)	(*)
28	Military aid:	-1,422	-440	-580	-610	-940	-2,591	-1,111	-368	-498	-479	-614	-2,140	(*)	(*)	(*)
29	Other:	-70	-30	-35	-31	-34	-130	21	-7	-7	-6	-6	-20	-1	(*)	(*)
30	Total:	-4,913	-963	-1,333	-1,288	-1,440	-5,044	-2,484	-835	-1,009	-949	-1,165	-3,858	-16	-2	-4
31	Balance on goods and services and unilateral transfers (balance for "all areas" equals net foreign investment):	251	517	125	-695	-124	-70	-515	312	-312	-605	-194	-939	-491	-163	-118
32	United States capital (net, outflow (-)):															
33	Private:															
34	Direct investments:	-654	-180	-372	-75	-84	-711	-78	12	-18	15	5	15	-8	7	13
35	Other long-term:	-339	-59	-88	20	-33	-128	37	2	-30	-9	20	-22	9	1	1
36	Short-term:	-103	4	-59	32	-42	-65	44	23	12	-21	-32	-58	-4	-1	-1
37	Government:															
38	Long-term:	-190	-141	-187	-187	-100	-609	117	-61	-100	-51	132	-113	-18	-3	-2
39	Short-term:	-23	1	-23	-12	-11	-45	-7	-5	15	12	-4	20	(*)	(*)	(*)
40	Total:	-1,229	-375	-729	-192	-54	-1,359	107	-36	-130	-79	121	-118	-29	4	9
41	Foreign capital (net, outflow (-)):															
42	Long-term:															
43	Transactions in United States Government bonds:	-698	6	14	54	238	294	-100	10	7	84	39	90			
44	Other investments:	145	-7	-4	35	91	116	127	0	-30	31	80	57	0	-1	1
45	Short-term:	1,938	172	496	600	-198	1,141	178	58	226	453	-92	639	-5	15	28
46	Gold sales (purchases (-)):	-53	-555	-184	7	274	-378	-288	-528	2	1	226	-421	12	2	1
47	Balance on foreign capital and gold:	442	-382	484	786	395	1,182	-39	-481	150	519	130	468	16	2	17
48	Transfers of funds between foreign areas (receipts from other areas (-)) and errors and omissions:	590	239	281	22	-217	238	306	233	243	165	-143	542	460	162	114

\* Less than \$500,000.

\* Revised.

\* Preliminary.

1. Western Europe includes the OECD countries, Finland, Spain, and Yugoslavia.

increase. Favorable weather conditions and the increasing use of other sources of energy were additional factors reducing the consumption of coal. The decline in coal exports to Western Europe from 3 million tons per month during the last half of 1951, to a 1-million ton rate during the last 3 months of 1952 cannot be solely ascribed, therefore, to higher coal production abroad, which accounted for only 1 million tons of the difference. Reduced coal shipments from the United States over that period resulted in a decline in foreign dollar expenditures, including those for shipping, by about \$200 million. This was approximately 15 percent of the decline in the export surplus on goods and services with Western Europe exclusive of exports under the military aid program.

In contrast to the reduced rate of expansion in industrial production abroad, the accelerated rise in production and

incomes here had stimulated imports by the end of 1952 to the highest volume since the previous postwar peak following the invasion of South Korea. The limited demand from other countries not only facilitated a rise in imports from Europe by 20 percent from the last quarter of 1951 to the same period of 1952, but also permitted increased purchases of raw materials without price rises. The stability of prices in the face of rising demands by the United States was in sharp contrast to the period immediately after the invasion of South Korea.

Second, production of wheat in Canada and Western Europe during the summer months was about 7.4 million tons higher than during the previous season, and the grain crops in the southern hemisphere and in East Asia were also substantially improved. Foreign purchases of American wheat during the second half of the calendar year in terms

States by Areas, 1951, and 1952 by Quarters

(Millions of dollars)

Eastern Europe						Canada						Latin American Republics						All other countries						International institutions						Line No.			
1951	1952					1951	1952					1951	1952					1951	1952					1951	1952								
	I	II	III	IV	Year		I	II	III	IV	Year		I	II	III	IV	Year		I	II	III	IV	Year		I	II	III	IV	Year				
2	(-)	1	1	1	2	3,982	070	819	725	786	1,000	3,802	1,010	831	772	800	4,519	3,151	901	806	733	770	3,208	1	1	1	1	1	1	1	1	1	1
	(-)	(-)	(-)	(-)	(-)	71	30	30	28	28	100	328	81	82	78	85	236	270	70	64	44	63	231	1	1	1	1	1	1	1	1	2	
	(-)	(-)	(-)	(-)	(-)	234	57	85	101	101	304	112	30	31	30	31	138	27	6	9	7	6	27	1	1	1	1	1	1	1	1	2	
4	(-)	1	1	1	1	82	20	23	25	25	92	124	24	28	36	30	123	77	23	20	17	17	70	69	12	12	12	12	12	12	4	4	
	(-)	(-)	(-)	(-)	(-)	4	(-)	0	2	1	9	31	8	8	7	8	23	53	14	48	09	54	170	170	12	12	12	12	12	12	4	4	
1	(-)	1	1	1	1	401	71	09	84	121	377	745	102	187	104	170	653	392	90	119	104	102	422	5	5	5	5	5	5	5	5	6	
5	(-)	1	1	1	1	(-)	(-)	(-)	(-)	(-)	(-)	10	6	6	3	7	19	8	3	2	4	3	11	6	5	5	5	5	5	5	5	6	
18	2	2	2	2	2	2,476	238	1,859	962	1,028	3,577	1,182	1,324	1,238	1,000	1,121	4,833	3,868	1,114	1,047	979	1,005	4,158	63	28	13	21	14	68	6	6		
78	10	9	11	9	38	1,294	500	808	586	632	2,443	1,533	908	888	887	935	3,580	2,619	618	621	491	601	2,141	17	2	4	1	7	9	9	10		
	(-)	(-)	(-)	(-)	(-)	107	21	21	22	21	88	201	73	68	70	73	285	75	19	25	27	27	98	17	2	4	1	7	9	10	11		
	(-)	(-)	(-)	(-)	(-)	235	24	64	165	40	276	216	65	64	65	59	233	18	5	0	0	0	23	18	5	0	0	0	0	23	11		
(-)	(-)	2	1	1	4	18	5	6	5	5	19	6	5	5	5	5	20	6	2	1	1	1	6	6	2	2	2	2	2	12	12		
9	(-)	(-)	(-)	(-)	(-)	25	10	10	17	40	77	06	31	22	19	21	80	590	178	184	204	219	763	32	2	(-)	20	2	30	13	13		
(-)	(-)	(-)	(-)	(-)	(-)	03	12	31	15	28	80	13	3	3	3	12	10	10	2	2	2	2	9	7	2	1	3	3	10	14	14		
						10	2	3	0	0	16	4	1	1	1	4	6	6	1	2	2	2	7	8	2	1	3	3	10	14	14		
82	10	11	12	10	63	2,775	647	728	805	822	3,502	4,119	1,073	1,010	1,051	1,085	4,229	3,290	828	751	731	758	3,465	57	6	9	28	7	47	16	16		
-64	-7	-8	-5	-7	-27	698	191	321	187	196	371	1,832	258	248	30	40	587	738	285	316	238	347	1,863	6	14	7	-7	7	23	17	17		
-15	-4	-4	-3	-4	-16	-10	-1	-1	-3	-1	-0	-41	-9	-9	-14	-13	-45	-185	-34	-33	-22	-38	-138	-1	-1	-1	-1	-1	-1	-1	18		
13	(-)	(-)	(-)	(-)	(-)	-0	-2	-2	-2	-2	-8	-6	-2	-1	-1	-1	-6	-520	-73	-131	-106	-00	-276	-240	-21	-10	-3	-20	-50	19	19		
(-)	(-)	(-)	(-)	(-)	(-)	-0	-2	-2	-2	-2	-8	-6	-2	-1	-1	-1	-6	-301	-60	-73	-140	-129	-105	-105	-10	-10	-10	-10	-10	20	20		
-5	-4	-4	-3	-4	-18	-16	-3	-3	-5	-3	-14	-124	-60	-35	-21	-23	-126	-1,028	-177	-202	-283	-261	-1,803	-241	-21	-26	-3	-30	-6	21	21		
-68	-11	-12	-8	-11	-45	583	158	328	152	193	861	987	205	213	19	23	459	-223	143	54	-64	-34	64	-235	-7	-9	-10	-13	-35	23	23		
1	(-)	(-)	(-)	(-)	(-)	-271	-43	-203	-85	-63	-377	-187	-00	-112	-12	-6	-195	-93	-90	-51	-24	-26	-193	-193	-1	-1	-1	-1	-1	24	24		
10	(-)	(-)	(-)	(-)	(-)	-229	-43	-203	-85	-63	-377	-187	-00	-112	-12	-6	-195	-93	-90	-51	-24	-26	-193	-193	-1	-1	-1	-1	-1	25	25		
	(-)	(-)	(-)	(-)	(-)	63	20	0	-9	-8	20	-129	-80	-113	20	-1	-107	-73	37	39	20	-9	97	97	(-)	(-)	(-)	(-)	(-)	26	26		
1	1	(-)	2	1	4	-1	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	-142	-63	-76	-42	-10	-189	-12	-2	-2	-1	-1	-0	27	27		
-1	-1	(-)	-1	(-)	(-)	-2	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	-17	0	-40	-23	-7	-64	-64	(-)	(-)	(-)	(-)	(-)	28	28		
17	8	(-)	0	1	1	-441	-66	-200	-39	-64	-371	-382	-146	-254	-13	-2	-321	-341	-128	-120	-62	-62	-366	-168	-8	-63	-2	-64	-123	29	29		
	-1	-1	-1	1	-1	-554	6	11	20	176	210	-2	-1	-3	1	-1	-4	-4	-2	-1	-8	1	-30	-10	-4	1	13	9	38	38	38		
-1	-2	-1	1	-1	-3	-8	-8	10	-1	25	38	11	2	5	0	0	12	4	0	0	2	1	3	2	2	2	2	1	1	6	31		
-11	-1	-1	3	-2	-1	836	16	180	44	-156	83	-89	12	47	50	25	170	454	119	32	-62	15	124	-14	-32	36	97	-43	48	32	32		
						2	-3	-7	-1	2	-1	124	-8	-95	1	36	-63	80	9	-9	9	4	4	24	(-)	4	-4	4	4	33	33		
-12	-4	-2	4	-2	-4	-26	10	182	69	78	331	32	8	-60	89	65	135	634	217	22	-39	27	121	-0	-36	32	36	-20	67	34	34		
64	10	14	4	12	40	-213	-182	-304	-191	-204	-621	-862	-57	57	-33	-80	-129	34	-36	50	166	54	143	490	69	36	-83	39	25	24	24		

2. Dependencias include Spanish Dependencias.

Source: U. S. Department of Commerce, Office of Business Economics.

of tons, were 28 percent below those a year earlier. For the whole year, exports were smaller than in any other postwar year except 1950.

Third, changing inventories of American products in foreign countries also influenced our exports. Inventories of manufactured goods as well as raw materials such as cotton and tobacco accumulated during the period of heavy exports from this country which lasted until the middle of 1952. The lower exports during the second half of the year may reflect either a decline of foreign purchases for inventory purposes or, in some instances, inventory liquidations to meet current demands.

Note.—Basic data for the years 1940 to 1951, in addition to detailed explanations of the methods used in estimating balance of payment data may be found in the *Balance of Payments 1940-51* supplement to the *Survey of Current Business*, published in November 1952 and available at \$1.25 at the United States Government Printing Office, Washington 25, D. C., or Department of Commerce Field Offices.

Not only were cotton stocks large in consuming countries relative to current utilization at the middle of 1952, but substantial stocks had also accumulated in other producing countries. At the end of the second quarter of 1952 cotton stocks in the United Kingdom amounted to nearly 14 months' consumption as compared with 6.7 months' supplies a year earlier.

Fourth, tightened exchange controls reduced purchases in the United States, particularly by Brazil and to a lesser extent by the sterling area countries. Exports to Brazil alone declined from an annual rate of \$748 million during the first half of 1952 to \$336 million during the last quarter. The effect of exchange controls upon exports to the sterling area are less certain, since indirect controls, such as credit restrictions, and declining incomes resulting from reduced

Table 3.—Balance of Payments of the

(Millions of dollars)

Item	Total						United Kingdom					
	1951	1952					1951	1952				
		Year	I	II	III*	IV*		Year	I	II	III*	IV*
<b>Exports of goods and services:</b>												
Merchandise, adjusted	2,331	2,009	738	488	504	459	911	682	243	186	119	164
Transportation	2,4	245	89	60	48	56	143	138	39	37	30	32
Travel	27	30	5	11	8	6	11	13	2	4	4	3
Miscellaneous services:												
Private	109	202	51	48	42	62	100	166	41	40	41	42
Government	17	29	6	6	13	5	16	13	4	3	3	3
Income on investments:												
Private	225	289	60	67	63	60	88	81	24	17	21	19
Government	26	74	(*)	(*)	84	84	22	30				90
<b>Total</b>	<b>2,167</b>	<b>2,589</b>	<b>856</b>	<b>609</b>	<b>595</b>	<b>727</b>	<b>1,417</b>	<b>1,888</b>	<b>283</b>	<b>107</b>	<b>221</b>	<b>264</b>
<b>Imports of goods and services:</b>												
Merchandise, adjusted	2,220	1,942	687	432	425	416	482	575	187	147	131	140
Transportation	184	232	61	57	54	60	143	194	42	56	54	48
Travel	90	91	19	26	32	17	27	41	3	12	10	7
Miscellaneous services:												
Private	180	178	43	43	44	43	178	172	42	42	44	45
Government	92	146	36	39	36	43	62	100	24	27	20	29
Income on investments:												
Private	137	132	22	32	32	36	134	126	31	31	31	35
Government	2	6	1	1	2	3	3	6	1	1	2	2
<b>Total</b>	<b>2,611</b>	<b>2,738</b>	<b>719</b>	<b>740</b>	<b>636</b>	<b>639</b>	<b>1,664</b>	<b>1,842</b>	<b>294</b>	<b>315</b>	<b>267</b>	<b>294</b>
<b>Balance on goods and services</b>	<b>255</b>	<b>164</b>	<b>219</b>	<b>-71</b>	<b>-73</b>	<b>89</b>	<b>373</b>	<b>-87</b>	<b>53</b>	<b>-82</b>	<b>-66</b>	<b>55</b>
<b>Unilateral transfers (net):</b>												
Private	-97	-73	-16	-16	-14	-25	-22	-35	-8	-7	-7	-18
Government:												
Economic aid	-253	-431	-20	-182	-144	-105	-215	-304	-17	-145	-134	-98
Military aid	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Other	-5	-7	-2	-2	-2	-1	-4	-1	-1	-1	-1	-1
<b>Total</b>	<b>-324</b>	<b>-511</b>	<b>-38</b>	<b>-189</b>	<b>-162</b>	<b>-121</b>	<b>-234</b>	<b>-443</b>	<b>-26</b>	<b>-168</b>	<b>-142</b>	<b>-112</b>
<b>Balance on goods and services and unilateral transfers</b>	<b>-79</b>	<b>-347</b>	<b>181</b>	<b>-261</b>	<b>-235</b>	<b>-42</b>	<b>139</b>	<b>-439</b>	<b>27</b>	<b>-235</b>	<b>-228</b>	<b>-54</b>
<b>United States capital (net):</b>												
Private:												
Direct investments	-62	-2	-24	-6	19	0	-26	21	12	-4	9	3
Other long-term	-14	-23	-7	-3	-1	-13	-6	-3	-3	-3	-2	3
Short-term	87	58	14	16	27	-2	30	24	14	-6	16	(*)
Government:												
Long-term	-38	-130	-52	-78	-37	37	29	5	-5	-45	(*)	52
Short-term	8	12	-2	16	-3	(*)	0	8	(*)	12	(*)	(*)
<b>Total</b>	<b>-18</b>	<b>-64</b>	<b>-70</b>	<b>-53</b>	<b>6</b>	<b>22</b>	<b>27</b>	<b>51</b>	<b>22</b>	<b>-46</b>	<b>16</b>	<b>58</b>
<b>Foreign capital (net):</b>												
Long-term:												
Transactions in United States Government bonds	-32	37	0	12	31	35	-23	66	6	12	31	36
Other	69	3	-8	-20	0	27	33	0	-3	-31	7	28
Short-term	68	160	117	22	65	-35	-5	165	139	10	69	-63
<b>Gold sales (purchases (-))</b>	<b>-614</b>	<b>-448</b>	<b>-521</b>	<b>-11</b>	<b>3</b>	<b>31</b>	<b>-464</b>	<b>-448</b>	<b>-520</b>		(*)	<b>89</b>
<b>Balance on foreign capital and gold</b>	<b>-269</b>	<b>-339</b>	<b>-386</b>	<b>-7</b>	<b>163</b>	<b>186</b>	<b>-419</b>	<b>-289</b>	<b>-372</b>	<b>-9</b>	<b>307</b>	<b>88</b>
<b>Transfers of funds between foreign areas (receipts from other areas (-)) and errors and omissions</b>	<b>477</b>	<b>620</b>	<b>287</b>	<b>319</b>	<b>121</b>	<b>-26</b>	<b>143</b>	<b>618</b>	<b>328</b>	<b>278</b>	<b>303</b>	<b>-92</b>

\* Less than \$50,000.

\* Revised.

\* Preliminary.

† Exports of goods and services have been adjusted to exclude exports of military and naval items financed through grants under the military aid programs and to include in merchandise

for the total sterling area—but not for the United Kingdom and other component areas—"Special category" exports sold for cash. For the definition of "Special category" goods, see Foreign Trade Statistics Notes for September 1950, published by the Bureau of the Census.

export prices reduced domestic demand and consequently also the need for direct import restrictions.

### Military expenditures rising

Foreign dollar receipts were also increased by Government expenditures abroad for goods and services, including "off-shore purchases," troop expenditures, and our contributions to "infrastructure" facilities for interallied use. The rise in such expenditures started in Japan shortly after the invasion of South Korea. Expenditures in Japan declined, however, from the first to the second half of 1952 while those in Western Europe increased.

Transactions in civilian services also increased foreign dollar receipts or reduced foreign dollar outlays. Foreign net expenditures on transportation declined because of reduced tonnage of exports from the United States, greater participation of foreign vessels in the trade, lower freight rates and increased tourist travel on foreign carriers.

Although tourist expenditures abroad were rising over the year, foreign tourist expenditures in the United States rose nearly as much, leaving the balance virtually unchanged.

Income on investments, however, appears to have declined as compared with the previous year. Rising costs abroad including taxes, and either stable or in some cases declining prices of the goods produced seem to have reduced the return on our foreign investments.

### Marked change in unrecorded transactions

The last major item which improved the financial position of foreign countries includes all those transactions which can only be inferred from the difference between the known dollar receipts and payments. These missing transactions ("Errors and omissions") declined from net receipts of \$433 million during the first half of 1952 to net payments of \$195 million in the second half. Although in several other postwar years this item declined from the first to the second half, the change by over \$600 million was far more than had previously been experienced and may be assumed to reflect more than random errors and the lack of data for certain recurrent transactions.

There have been three major shifts in this item since the war, all of which seem to have been closely related to the changing strength of the pound sterling. In each of these

## United States With the Sterling Area

(Millions of dollars)

Other Western Europe						Dependencies						All other countries					
1951	1952					1951	1952					1951	1952				
	Year	I	II	III	IV		Year	I	II	III	IV		Year	I	II	III	IV
61	83	20	9	10	14	205	211	84	83	80	84	1,041	932	380	234	105	171
7	4	(*)	(*)	(*)	(*)	30	20	6	5	4	5	108	75	25	18	11	13
1	1	(*)	(*)	(*)	(*)	5	0	1	2	2	1	10	10	2	4	2	3
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	20	28	8	7	8	7
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	2	10	1	2	10	3
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	87	69	14	15	20	20
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
79	80	23	16	10	17	325	333	84	84	80	83	1,242	1,198	437	252	234	217
17	24	10	5	5	4	738	842	187	183	158	145	963	761	183	186	164	149
4	4	(*)	(*)	(*)	(*)	11	14	3	3	3	2	22	20	5	4	5	5
(*)	(*)	(*)	(*)	(*)	(*)	42	46	14	11	11	8	7	0	2	2	1	1
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	2	1	(*)	(*)	(*)	(*)
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	13	33	0	6	8	6
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	1	(*)	(*)	(*)	(*)	(*)
28	33	11	8	8	6	805	779	286	290	148	163	1,433	761	298	213	175	178
42	27	12	2	2	11	-481	-528	-124	-114	-69	-68	289	489	237	68	38	44
-4	-12	-2	-2	-3	-5	-18	-11	-2	-8	-3	-3	-18	-16	-1	-1	-3	-4
-22	-5	-1	-2	-1	-1	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
-31	-17	-5	-4	-4	-6	-13	-11	-2	-3	-3	-3	-28	-48	-7	-10	-13	-10
11	19	9	-2	-2	5	-434	-387	-234	-127	-71	-83	181	345	280	59	20	34
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
-11	-1	(*)	-1	(*)	(*)	-12	-20	(*)	(*)	(*)	(*)	-103	-114	-46	-38	-21	-16
-1	(*)	(*)	(*)	(*)	(*)	-1	(*)	(*)	(*)	(*)	(*)	10	6	-1	2	5	(*)
-13	-1	(*)	-1	(*)	(*)	1	13	6	13	0	5	-144	-162	-32	-19	-30	-31
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
9	0	1	-1	(*)	(*)	-10	5	2	2	1	-1	83	-2	-28	16	-9	10
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
4	5	2	1	1	1	4	5	2	1	1	1	-54	-19	-6	-12	2	(*)
9	0	1	-1	(*)	(*)	-0	13	6	-1	7	1	80	-13	-20	4	-6	19
-5	-4	-18	4	2	-5	582	286	180	105	64	77	-67	-184	-108	-44	-30	-25

\* Military aid to the sterling area countries is not shown separately.

Source: U. S. Department of Commerce, Office of Business Economics.

cases there seems to have been a flow of capital which we have not been able to record in the normal way.

The first occurrence was in the second and third quarters of 1947; in the second quarter there appear to have been large unrecorded inflows of funds to the United States, which may have been induced by the near exhaustion of the \$3.75 billion loan to the United Kingdom, and this inflow was greatly reduced in the third and fourth quarters of 1947 when the convertibility of sterling was suspended. Again in the third quarter of 1949 there appear to have been large unrecorded capital inflows which were probably a result of the apparent impending devaluation of sterling; following the devaluation in September of that year there was a shift in the errors and omissions indicating a liquidation of the accumulated dollar assets.

It seems likely that the shift in the movement of unrecorded capital funds during the second half of 1952, mostly between the United States and the sterling area, was again responsible for the shift in the unaccounted-for transactions, and that a substantial part of the recovery of foreign reserves must be attributed to this factor. The following tabulation

reflects the changes in these transactions since the second half of 1951:

Unrecorded transactions and interarea transfers to other areas (receipts from other areas (-))

		Sterling area	Rest of the world	Total unrecorded transactions
1951	Second half.....	442	-243	109
1952	First half.....	597	-164	433
	Second half.....	23	-218	-195

Several developments occurred in the sterling area which may have contributed to such capital movements. First, credit was restricted in the United Kingdom and interest rates rose during the second half of 1951 and the first half of 1952. The yield of Government bonds rose from 3.84 percent in June 1951 to 4.42 percent in June 1952. This 15 percent rise in yield was substantially higher than in any other of the major European countries or in the United States. When, during the first quarter of 1952, sterling area reserves were stabilized, both the higher yields and the restored confidence in the value of the pound sterling may have induced capital movements to the United Kingdom.

Offsetting in part the transactions which resulted in rising foreign dollar receipts were declines in Government economic grants and loans and private capital movements. Government grants and loans are discussed in the following article in this issue of the Survey. Various factors accounted for the change in net loan disbursements between the first three quarters and the last quarter of the year. Loans under the Mutual Security Act (10 percent of the aid under the fiscal 1952 appropriation had to be given in loans), and the utilization of the second half of the \$190 million grain loan to India provided most of the large disbursements during the first two quarters. The loan disbursements during the third quarter include a \$154 million advance by the Export-Import Bank to France against military contracts, of which \$49 million was repaid by the end of the year. Annual loan repayments of \$50 million by the United Kingdom added to the capital inflow during the last quarter of the year.

### *Private investments decline*

Private capital movements declined during the year and were over \$100 million smaller than in 1951. The decline from 1951 was concentrated in portfolio investments, mostly in Canadian securities. Although direct investments in 1952 were about \$100 million higher than in 1951, the trend after the middle of the year was downward. Completion of facilities in the oil industry in Latin America and the Middle East appear to be a major factor in the decline. Increased supplies of oil and oil products in relation to demand may also have reduced the need for further expansion.

Canada is the major area where large direct investments are still going forward. Development of oil and mineral deposits appears to continue at previous rates, although there was an apparent high point in the second quarter resulting from the sale of securities by American controlled Canadian companies to obtain funds for later investment.

### *Temporary factors in reserve rise*

In order to evaluate the significance of the changes in the balance of payments during 1952 it is important to examine whether the developments which on balance facilitated the relatively large accumulation of foreign reserves are likely to be temporary, or whether they may be expected to continue for some time.

The relatively greater rise in business activity in the United States as compared with foreign industrial nations is not likely to continue to the same extent. Textile production abroad, one of the major industries which held down overall foreign production, was again on the upswing at the end of the year. This may indicate that the demand for textile raw materials, including cotton, was near bottom during the last months of the year. At the same time, however, excess capacity in the metal products industries appeared to be rising in the United Kingdom. In the event that British industries are successful in utilizing their excess capacity in the metal products industries for increased exports, competition for similar exports from the United States may well rise.

The decline in exports of coal to overseas countries during the second half of 1952 was in part due to temporary factors. However, large stocks of coal abroad will postpone the need for imports even if the demand for coal should increase.

The rise in wheat production from 1951 to 1952 in Europe and Canada was somewhat more than the average rise during recent years and may have been due in part to unusually favorable weather conditions. Less favorable climatic conditions may again raise the demand for supplies from the United States. Inventories held abroad would, however, postpone an upturn in foreign purchases here, even if the foreign supply situation becomes less favorable.

Possibly another temporary factor was the movement of funds abroad as reflected in the changes of unrecorded transactions. Not only is the amount of funds available for transfer abroad limited, particularly if business activity here remains at a high level, but the recent rise in short-term interest rates in this country has probably reduced the incentive for such transfers.

The volume of merchandise imports required for current use in 1953 is likely to remain as high as in 1952, as long as the prospects for domestic business activity remain favorable. With a steady demand here and perhaps a rising demand abroad, prices of imported goods may not continue to decline below the last quarter of 1952 but even if prices stabilize at the level of that period, they would average about 3-4 percent lower—in 1953 than in 1952.

The major source from which foreign countries can expect higher dollar receipts is military expenditures, which are likely to increase as deliveries are made on contracts for military equipment previously placed.

Government aid, other than military, may be expected to continue the downward trend which has been taking place since 1949, although a temporary upturn of grants over the relatively low rate during the fourth quarter of 1952 is likely. Private investments, however, may not decline below the rate during the second half of 1952, since, with the exception of Canada, the net outflow of funds for direct investments had already shrunk to an annual rate of less than \$100 million.

On balance, therefore, it appears that, with favorable climatic conditions abroad and continued favorable business conditions in the United States, foreign countries should be able to raise their gold and dollar assets again in 1953, although probably at a slower rate. This tendency would be further strengthened if those foreign countries which had reduced their stocks of American goods, should resume their purchases, particularly of those goods which are essential for the continued operation of their economies. This may apply even to those countries which restricted imports from the United States through exchange controls.

Even if net dollar receipts by all foreign countries decline again during the year, the portion accruing to the sterling area may continue to rise, as it did during the closing months of last year. The increase in foreign gold purchases which started in December and which had continued during the first months of this year reflected largely the shift in foreign dollar earnings to the sterling area. British reserves, more so than those of most other countries, are usually held in gold rather than in the form of dollar deposits or other liquid dollar assets.